

# CDBG PROGRAM LOAN GUARANTEE

MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT

## PURPOSE

Provide gap financing for new or expanding businesses. “Gap” financing means other sources of financing (including bank loans and owner equity) have been maximized, and a gap exists in the total project cost.

## AUTHORIZATION

42 USC § 5301 et seq., 24 C.F.R. Part 570; and Missouri’s “Consolidated Plan” submitted to the U.S. Department of Housing and Urban Development.

## HOW THE PROGRAM WORKS

Upon application by a city or county, the Department of Economic Development (DED) may guarantee a portion of a loan made to a business. The funds would be provided to the lender upon default and liquidation of collateral.

## ELIGIBLE AREAS

Projects can only be in a “non-entitlement” area -  
- a city under 50,000 in population or a county under 200,000 in population.

## ELIGIBLE SPONSOR APPLICANTS

Cities and counties.

## ELIGIBLE BENEFICIARY BUSINESSES

For-profit manufacturing, processing and assembly companies that will have wages above the county average and provide medical benefits are prioritized.

## USE OF FUNDS

- ✓ The purchase of new machinery and equipment or working capital is eligible.
- ✓ Refinancing, payout of stockholders, buyouts or lines of credit are not eligible.

## APPLICATION PROCEDURE

An application must be submitted by the Sponsor on behalf of the business. Applications are reviewed on a case-by-case basis, subject to fund availability.

## FUNDING LIMITS

- DED will guarantee up to 90% or \$400,000 of the principal balance (after liquidation of assets) of a loan made by a financial institution or an industrial revenue bond.
- DED must determine that the borrower has exhausted other funding sources and only the least amount needed to complete the project may be provided.
- The maximum funding available is based on the lesser of \$400,000 per project or \$25,000 per new full-time permanent job created or retained.
- **Interest Rate:** The bank determines the interest rate, but it cannot exceed prime plus 2%.
- **Term:** The term of a CDBG-guaranteed loan cannot exceed:
  - three to five years for permanent working capital;
  - five to ten years for machinery and equipment; and
  - seven to fifteen years for real estate.
- **Collateral:** Any available collateral should be secured, including personal guarantees for closely held companies, and/or corporate guarantees, as applicable. Personal guarantees are required for owners of more than 20% of the company. Equity injection for start-up projects is at least 20% to 30%.
- **Costs:** Any administrative, legal or closing costs must be paid by the business.

## **SPECIAL PROGRAM REQUIREMENTS**

- **LMI Employees:** At least 51% of the new jobs to be created must be taken by persons considered “low to moderate income” (LMI).
- **Prevailing Wage Requirement:** If loan proceeds are used for the financing of building construction or the installation of machinery, prevailing wages must be paid to the employees of the contractors.

## **CONTACT**

Missouri Department of Economic Development  
Business Finance  
301 West High Street, Room 770  
P.O. Box 118  
Jefferson City, MO 65102  
Phone: 573-751-0717      Fax: 573-751-8480  
E-mail: [dedfin@ded.mo.gov](mailto:dedfin@ded.mo.gov)

## **ADDITIONAL RESOURCES**

Go to the department’s home page at [www.missouridevelopment.org](http://www.missouridevelopment.org) to obtain guidelines and forms for the CDBG Loan Guarantee program as well as a wealth of information regarding Missouri’s many other economic development programs and policies.